

GOVERNMENT-WIDE SUPPORT

I. OVERVIEW

The eleventh major program in the State program structure is Government-Wide Support. The program's overall objective is to enhance effectiveness and efficiency of State programs by providing executive direction, program coordination and policy development, as well as a wide variety of services supporting work of the State government as a whole or common to all or most programs.

Government-Wide Support is composed of three principal sub-programs:

- Executive Direction, Coordination and Policy Development
- Fiscal Management
- General Services

These sub-programs are distinguished by uniqueness of their respective operational processes and forms of output.

Organizationally, the Government-Wide Support Program primarily involves the Executive Offices of the Governor (GOV) and Lieutenant Governor (LG) and the various departments that provide central services - the Departments of Accounting and General Services (DAGS), Attorney General (AG), Budget and Finance (B&F), Human Resources Development (DHRD), and Taxation (TAX). Additionally, the Departments of Land and Natural Resources (DLNR) and Business, Economic Development and Tourism (DBEDT) are involved to some degree in the program.

A wide variety of activities are performed under the Government-Wide Support program to achieve the objective of efficient State government operations and programs. They include: policy development and implementation; providing of economic information, statistics, and forecasts; revenue collection; accounting and auditing; funds management; legal services; personnel services; property management; employee fringe benefit administration; voting rights and elections; construction and maintenance of facilities; and other support services.

The operating programs under Government-Wide Support do not generally have extensive working relationships with their federal and county counterparts. However, a few component programs - the Victim Witness program, Career Criminal Prosecuting Units, Coastal Zone Management program and State Plan - involve significant interaction with federal and county governments.

Table I-1 illustrates the capital investment and operating costs of the Government-Wide Support Program. The annual total cost over the budget and planning period increases from \$1,812.6 million in FY 06 to \$1,999.7 million in FY 13. The annual total operating costs increase from \$1,537.8 million to \$1,992.9 million during the same time period.

Capital investment costs total \$322.1 million for FB 2007-09. For FY 08-09 respectively, \$90.2 and \$47.4 million is transferred to the State Educational Facilities Improvement special fund and \$60.0 and \$30.0 million is transferred to the Hawaiian Home Lands Trust Fund. It is noted that no capital investment costs are reflected for the planning period because projects are under review.

Changes in the operating budget reflect costs for debt service, health benefits premiums, and employer's contributions for the Employees' Retirement System (ERS) and social security and Medicare.

Current lease payments represent the costs of acquiring office buildings using certificates of participation.

For the upcoming biennium, FB 2007-09, the total operating costs will amount to \$3,618.6 million (Table I-2). The general fund finances 44.8% of the costs, and interdepartmental transfers finance 49.4% of the costs. The interdepartmental transfers are used to show the movement of funds for fringe benefits and debt service between Formal Education (Department of Education (DOE) and University of Hawaii (UH)) and B&F.

TABLE I-1
INVESTMENT AND OPERATING COSTS
GOVERNMENT-WIDE SUPPORT

	F i s c a l Y e a r s							
	Actual <u>2005-06</u>	Est. <u>2006-07</u>	Rec. <u>2007-08</u>	Rec. <u>2008-09</u>	<u>2009-10</u>	P r o j e c t e d		
						<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	269.0	392.9	197.8	124.3	...	...	...	...
Operating	1,537.8	1,706.9	1,779.2	1,839.4	1,855.9	1,908.8	1,923.2	1,992.9
Current Lease Payments	5.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Total	1,812.6	2,106.6	1,983.8	1,970.5	1,862.7	1,915.6	1,930.0	1,999.7

A/ Expenditures in millions of dollars from all funds.

TABLE I-2

OPERATING COSTS OF THE GOVERNMENT-WIDE PROGRAM BY MEANS OF FINANCING
(in \$ thousands)

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
					2010-11	2011-12	2012-13	
A. <u>Costs of the Recommended Program^{A/}</u>								
General Fund	689,517	757,454	798,797	822,805	831,102	852,405	859,298	888,098
Special Funds	7,831	21,783	22,621	22,582	22,548	22,548	22,548	22,548
Federal Funds	13,034	18,524	18,953	18,444	18,320	18,321	18,320	18,321
Trust Funds	9,617	17,693	22,483	18,922	15,093	18,922	15,093	18,922
Interdepartmental Transfer Funds	791,148	848,542	873,369	913,717	926,487	954,248	965,614	1,002,670
Revolving Funds	20,129	33,913	31,962	31,962	31,958	31,958	31,958	31,958
Other Funds	6,526	8,946	11,025	10,950	10,363	10,363	10,363	10,363
Total	1,537,801	1,706,856	1,779,210	1,839,382	1,855,871	1,908,765	1,923,194	1,992,880

^{A/} Details may not add to totals because of rounding.

II. COST AND EFFECTIVENESS OF THE RECOMMENDED PROGRAMS

This section discusses activities, costs, and effectiveness of the three major Level II programs that constitute the Government-Wide Support program.

EXECUTIVE DIRECTION, COORDINATION, AND POLICY DEVELOPMENT

The major objective of the Executive Direction, Coordination and Policy Development sub-program is to enhance effectiveness and efficiency of State programs by providing executive direction, policy development, program coordination, and planning and budgeting services.

The departments involved with this sub-program are GOV, LG, B&F, DAGS, and DBEDT.

The program is chiefly focused on providing overall leadership, long-range planning, and day-to-day direction. This is accomplished principally through the Executive offices and central staff agencies. As the Chief Executive of the State, the Governor sets broad goals of the State, establishes priorities and administers execution of laws according to legislative intent. The major activities of the program include: identifying and providing analyses of significant issues, problems, and opportunities confronting the State; preparing the proposed six-year program and financial plan and State budget; reviewing and approving agencies' expenditure plans, allotment requests, and requests to transfer funds among programs; reviewing capital improvement implementing actions and preparing timely capital improvement project reports; directing and coordinating the elections system; and supervising campaign contributions and expenditures.

Statewide Planning and Coordination

The Office of Planning (OP), administratively attached to DBEDT, conducts statewide comprehensive, strategic and regional planning activities. OP also facilitates coordinated and cooperative planning among agencies. Specific core activities include identifying and providing analyses of significant issues, problems, and opportunities confronting the State; articulating the Administration's land use policy; presenting the State's position on land use boundary changes; conducting coastal/ocean planning and management; preparing regional studies; and developing and implementing a statewide planning and geographic information system.

OP also administers the Brownfields Cleanup Revolving Loan Fund (BCRLF) consisting of \$2 million of federal Environmental Protection Agency (EPA) funds to provide low cost loans for cleanup activities at eligible sites slated for redevelopment and reuse. OP received an EPA Brownfields Site Assessment grant for \$400,000 to pay for environmental assessments of

abandoned or underutilized former industrial properties that may be contaminated in order to allow cleanup and redevelopment. This reuse of properties is especially significant in an island state.

Economic Planning and Research

DBEDT's Economic Planning and Research program is to enhance and contribute to the economic development of the State by providing analyses and policy recommendations on economic issues; providing economic forecasts that contribute to long-term statewide planning and infrastructure needs assessment; conducting and reporting on basic research on the economy of the State by collecting, compiling, interpreting, and publishing data and statistics on all aspects of business activity and the economy and demographic characteristics of the State; developing and maintaining a statewide statistical reporting system.

Sub-Program Operating and CIP Costs

Table II-1 illustrates the capital investment, operating costs and selected measures of effectiveness of the Executive Direction, Coordination and Policy Development sub-program.

The operating costs will increase from \$368.7 million in FY 06 to \$541.9 million in FY 13, due to projected increases in the costs of health insurance benefits for State employees and retirees.

The capital improvement program (CIP) expenditures reflect the amounts paid into the Educational Facilities Improvement Special Fund and the Hawaiian Home Lands Trust Fund. It is noted that no capital investment costs are reflected for the planning period because projects are under review.

TABLE II-1

INVESTMENT AND OPERATING COSTS

EXECUTIVE DIRECTION, COORDINATION, POLICY DEVELOPMENT

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
						2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	243.3	356.2	150.2	77.4	...	...	...	...
Operating	368.7	407.7	424.9	451.8	467.5	493.0	512.4	541.9
Current Lease Payments	...	...	...	...	...	...	...	...
Total	612.0	763.9	575.1	529.2	467.5	493.0	512.4	541.9
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Number of registered voters who vote as a percentage of registered voters.	...	60	...	60	...	60	...	60

^{A/} Expenditures in millions of dollars from all funds.

FISCAL MANAGEMENT

The objectives of the Fiscal Management sub-programs are to maximize the State's income within limits of established revenue policies and tax laws, and to maintain financial faith and credit of the State. These objectives are met by: administering an equitable system of tax assessment and efficient revenue collections; ensuring availability of funds when required and safekeeping and prudent investment of State moneys; and providing for legal, proper and prompt payment of the State's financial obligations.

DAGS, B&F and TAX manage the eight lowest-level programs that make up this Level II program.

Major activities of the Fiscal Management sub-program include: tax assessments; tax audits and collections; tax services and processing; tax research; pre-audit of vouchers and payrolls; examining, certifying and registering contracts; recording and reporting State receipts and expenditures; conducting post-audits; assessing and analyzing financial implications of proposed statewide programs and projects; reporting and assessing non-tax revenues; issuing and maintaining general obligation bonds; and managing all State funds.

In addition to external effects of economic conditions in the State and nation on the State's tax collections, the Fiscal Management program is significantly affected by provisions of the State Constitution that limit general fund expenditures and issuance of general obligation bonds.

Sub-Program Operating and CIP Costs

Table II-2 provides an overview of the cost trends and selected measures of effectiveness in the Fiscal Management program. There are no planned expenditures for capital investment; however, operating costs of \$614.1 million in FY 08 are projected to rise to a new total of \$689.2 million in FY 13.

The selected measures of effectiveness indicate a continuation of the State's prudent management of the Fiscal Management sub-program.

- *Measure No. 1 indicates annual average rate of return on the State treasury investments.*
- *Measure No. 2 reflects the average time between department audits than was reported in the prior years.*
- *Measure No. 3 reflects how well TAX reviews tax returns and processing refunds.*

TABLE II-2
INVESTMENT AND OPERATING COSTS
FISCAL MANAGEMENT

	Fiscal Years							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	Projected		
						2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	...	...	...	...	...	...	...	...
Operating	531.2	581.4	614.1	646.8	643.0	665.0	654.6	689.2
Current Lease Payments	...	...	...	...	...	...	...	...
Total	531.2	581.4	614.1	646.8	643.0	665.0	654.6	689.2
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Average rate of return on investments.	3	3	3	3	3	3	3	3
2. Average time between audits - Department audits.	15	15	15	15	15	15	15	15
3. Average days to issue for Non-work listed returns.	78	78	78	78	78	78	78	78

^{A/} Expenditures in millions of dollars from all funds.

GENERAL SERVICES

The objective of the General Services sub-program is to assist in achieving State objectives by providing logistical, technical, and professional supporting services to all State agencies. This Level II program is composed of 20 lowest-level programs that are administered or operated by DAGS, AG, B&F, DHRD and DLNR.

As the program title implies, General Services provides support to all agencies. Services provided include: representing the State in all criminal and civil cases; recruiting and retaining qualified government employees; managing retirement and health insurance programs for employees and retirees; providing information processing services; screening records and scheduling records for retention or destruction; supervising construction of State buildings; maintaining State facilities; managing public lands; central purchasing; providing motor pool and parking control services; and telephone and messenger services. It is noted that this does not reflect the total effort of the State in these support services. For example, custodial and grounds maintenance services are also internally provided by UH and DOE and the Department of Transportation (DOT) and the Hawaii Health Systems Corporation. Also, UH and the Department of Agriculture and DOT provide motor pool services for their respective departments.

State Risk Management and Insurance Administration

Chapter 41D, HRS, provides the Risk Management program the authority and responsibility of protecting the State government against catastrophic losses. The program identifies and analyzes the State's loss exposures, determines risk that should be self-insured versus commercially insured, purchases applicable statewide property, crime, and liability insurance policies with cost effective terms, and coordinates loss control programs to minimize accidental and fortuitous losses. The program also manages and controls a statewide risk management revolving fund, settles informal tort claims up to \$10,000, adjusts automobile claims and property losses, and performs other risk management services. The purpose of these activities is to ensure that losses of the State are controlled and financed on a well-coordinated statewide basis.

Information Processing and Communication Services

The Information Processing and Communication Services (IPCS) program, administered by the Information and Communication Services Division (ICSD), provides statewide leadership and direction in optimal use and management of information technologies. The program strives to deliver effective and efficient information processing services to Hawaii State Government to solve problems, improve the delivery of public

service and public access to information, and operate more efficiently. Activities of the program include:

- Improving management of information technology initiatives and projects in the State.
- Continuing the development and implementation of services on the State's intranet (internal network) to advance the State's movement towards electronic government.
- Expanding and enhancing the State's Telecommunications infrastructure to enable more State offices to be connected to HiGov.net (Intranet portal) and facilitate interaction with other government jurisdictions including Judiciary, Legislature, UH, DOE, counties, and federal agencies.
- Enabling greater use of the Internet for increased productivity such as improving interoffice communications, gaining access to more information sources, enhancing the public's access to government information and services, and electronic commerce.
- Developing a security office and implementing security measures to monitor and analyze cyber attacks on State networks, web servers, and other systems; and preparing to support future federal and State homeland security requirements.
- Ensuring the stability and survivability of the State's computing and network facilities, systems, and data, including backup/disaster recovery capabilities.
- Developing a Service Oriented Architecture environment to migrate the State to future technological enhancement.

Construction and Office Leasing Programs

The Public Works Division consists of two programs: the Planning, Design, and Construction program and the Office Leasing program.

The Planning, Design, and Construction program plans, coordinates, organizes, directs and manages a centralized program of architectural and engineering services for State agencies and for the Legislature, Judiciary, and others upon request, including land acquisition for specific projects, planning, design, project management, construction management, and furniture and equipment acquisition for capital improvement and other projects. As the lead agency for the State Civil Defense's statewide emergency management plan, the program provides technical advice and evaluations, engineering

services, construction management and inspection, and construction contracting and emergency repair of public works facilities during civil defense emergencies, including natural disasters, and coordinates State and federal recovery efforts.

Continuing costs of operation are factored into the design by materials selected and incorporating energy efficient systems such as lighting, electrical, mechanical, and ventilation systems, as applicable. Finally, the program's goal is to expedite the design and construction of facilities so that the facilities are available for use by user agencies when required and within budget.

The Office Leasing program provides centralized office leasing services to most State agencies of the Executive Branch for the acquisition of office space in non-state owned buildings. It provides assistance in assessing lease space needs and compliance with office space standards, locates suitable office space, negotiates lease terms and conditions including provisions for tenant improvements, prepares lease agreements, and processes applicable leases for recordation at the Bureau of Conveyances. The program also processes requests for lease payments, and bills and collects lease rent reimbursements from user agencies, as applicable.

State Procurement

The Procurement Policy Board (PPB) and the State Procurement Office (SPO) were established to serve as the single source of public procurement policy to be applied equally and uniformly to the State and counties. The board is administratively attached to DAGS, have authority and responsibility to adopt rules governing the procurement, management, control and disposal of any and all goods, services and construction. The seven-member PPB considers and decides matters of procurement policy including those referred to it by a chief procurement officer, and has the power to audit and monitor the implementation of its rules.

Initiatives being pursued by the SPO are to capitalize on technology, improve current processes and nurture a procurement knowledge community. In the technology arena of the Hawaii Electronic Procurement System, changes include on-line request for quotations, electronic catalogs, and competitive sealed bids and proposals. Similarly, the use of purchasing cards, in lieu of purchase orders for payment, is being institutionalized. In addition, to comply with Act 50, SLH 2005, a set-aside program and an assistance program will be developed and managed to support small businesses in Hawaii.

Hawaii Employer-Union Health Benefits Trust Fund

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) provides medical, prescription drugs, dental, vision, and chiropractic health benefit plans for 53,000 active employees and 36,000 retirees and surviving beneficiaries. In addition, a life insurance plan is provided for each active employee and retiree. An additional 75,000 dependent-beneficiaries are covered to include spouses or domestic partners, and children including students attending an accredited college, university, or technical school.

A ten-member Board of Trustees, appointed by the Governor, is responsible for determining the nature and scope of the benefit plans offered, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the EUTF, and overseeing all EUTF activities. The Board consists of five Trustees representing the public employers and five Trustees representing State and county employees, retirees, and their dependents.

Employees' Retirement System (ERS)

ERS provides retirement, disability, and survivor benefits for State and county employees and retirees. ERS has 103,537 active, inactive vested, and retired members, with approximately \$10.1 billion in its investment portfolio.

The ERS falls under the policy and executive direction of a Board of Trustees with certain areas of administrative control vested in the State B&F. The Board consists of eight members: the State Director of Finance, four members elected by the membership, and three citizens of the State appointed by the Governor.

Public Land Management

The Public Land Management program is responsible for ensuring the effective and efficient use of public lands in ways that will fulfill the public land trust obligations and promote the sustained social, environmental and economical well-being of Hawaii's people, including planning for the use of and developing State lands, leasing lands for agricultural, commercial, industrial and resort purposes, issuing revocable permits and easements, inventorying and managing public lands, and ensuring the availability of lands for public purposes.

The Office of Conservation and Coastal Lands (OCCL) is responsible for the conservation, protection, and preservation of important natural resources of the State through appropriate management and to promote their long-term sustainability and the public health, safety and welfare through regulation and enforcement of land use and protect and restore sandy beaches around the State through improving

planning and early identification of coastal hazards, as well as through beach restoration and avoidance of coastal hazards.

General Services Operating and CIP Costs

The capital investment and operating costs and measures of effectiveness for the General Services sub-program are presented in Table II-3. Operating costs of \$740.2 million in FY 08 are projected to rise to \$761.7 million in FY 13. Capital investment expenditures include funds for the renovation and construction of office building and various other projects. It is noted that no capital investment costs are reflected for the planning period because projects are under review.

Measures of Effectiveness in the General Services sub-program, are necessarily varied and reflect the diverse characteristics of the component programs. As support programs, effectiveness and activity indicators are strongly influenced by fluctuations in demands and levels of activity in many "primary output" programs served.

- Measure No. 1 indicates the percentage of State agencies with approved retention schedules.
- Measure No. 2 indicates the average turnaround time to refer eligible applicants to fill positions.
- Measure No. 3 indicates the percentage of contract grievances that are settled without third party assistance; essentially, this includes all grievances resolved prior to arbitration.
- Measure No. 4 reflects the average construction pre-bid estimates as a percentage of the average actual bid prices during a given fiscal year.

TABLE II-3
INVESTMENT AND OPERATING COSTS
GENERAL SERVICES

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		2012-13
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	25.7	36.7	47.7	46.9	...	...	...	...
Operating	637.9	717.7	740.2	740.8	745.4	750.8	756.2	761.7
Current Lease Payments	5.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Total	669.4	761.2	794.7	794.5	752.2	757.6	763.0	768.5
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Percent of State agencies with approved retention schedules.	29	29	29	29	29	29	29	29
2. Average turnaround time to refer eligibles.	21	21	21	21	21	21	21	21
3. Percent of contract grievances settled without 3rd party assistance.	90	90	90	90	90	90	90	90
4. Average pre-bid construction estimate as percentage of average bid price.	100	100	100	100	100	100	100	100

^{A/} Expenditures in millions of dollars from all funds.

III. PROGRAM CHANGE RECOMMENDATION

Program structure and measures of effectiveness for FB 2007-09 in Government-Wide program was significantly changed to realign programs, develop meaningful objectives statement, and quantifiable performance measures. For FB 2007-09, the GOV, DAGS, TAX, and DHRD consolidated its lowest level programs to more accurately reflect the organizational structure.

Construction Program: The program prioritized and consolidated its capital improvement project for FB 2007-09. The biennium budget requests of \$109.1 million was based on key criteria of maintenance of existing facilities, including health and safety issues, energy conservation, and emergency response.

Risk Management: The program cost allocation returned the responsibility for budgeting the risk management cost allocation for the Executive Branch general funded programs back to the program, with the exception of the DOE and the UH. This revision results in the transfer of \$1.9 million in FY 08 and \$1.4 million in FY 09 to the program.

ERS: The program requested additional resources in the FB 2007-09 budget to generally improve customer service; improve the pension benefit computation and payment processes; and improve the internal controls over funds to ensure the safeguarding of assets.

Public Land Management: The biennium operating budget request is for about \$685,000 with the majority of the increase for the Special Land Development Fund. Capital improvement funds were requested for \$6.9 million in FY 08 and \$23.7 million in FY 09.

EUTF: The program requested additional resources for the implementation of a new computer system. The current computer system puts the EUTF at risk of non-compliance with federal HIPAA security requirements, of incurring increased costs associated with the continued maintenance of an antiquated computer system, and of facing the inability to modify the computer system to meet future changing program requirements. The new computer system is needed to fully implement and best support the EUTF's current and future business operations and processes.

IV. EMERGING CONDITIONS, TRENDS AND ISSUES

Statewide Land Use Management

Population growth continues to create increased demands for residential development on lands currently classified for agricultural use throughout the State. At the same time, there are growing concerns regarding the proliferation of gentlemen estates or fake farms on agricultural land, the need to protect our natural resources, including our prime agricultural lands, mountains, and shoreline areas, and to ensure that development occurs in areas with adequate water resources and that existing/planned public infrastructural improvements are adequate and developed on a timely basis to accommodate the additional growth. There is also a need to ensure that prior to reclassifying more agricultural lands for residential and community development, requires efficient use of existing vacant and entitled lands in urban areas.

Questions regarding the nature, role and effectiveness of the State Land Use Commission to administer the State Land Use Law and other State programs to administer programs with statewide impact in land use matters will continue to be raised, particularly as the counties develop and enhance their land use planning capabilities. Evaluation of the existing system and methods to improve the system continue with the mandates contained in Act 183, SLH 2005, Relating to Important Agricultural Land and Act 205, SLH 2005, Relating to the State Land Use Commission. Efforts continue at both the State and county levels to identify areas which need to be protected and regions where future growth may occur, and to develop improved analytical tools including geographic information system technology and web based databases to assist planners and decision-makers.

Concerns will continue to be raised regarding the land use regulatory tools in place today, and there will be continued efforts to streamline the proceedings before both the State and the county planning commissions. The question of impact fees and other measures relative to assuring the development of adequate numbers of affordable housing units and the concurrent provision of public infrastructure to mitigate the impacts of proposed developments will continue to be examined. Court decisions will also continue to have an impact on land use regulatory programs including decisions related to native Hawaiian legal rights.

Economic Planning and Research

Reductions over the last several budget periods in the program's general fund resources made the program explore alternative means of disseminating information. The program has turned to electronic dissemination of information as the only viable conduit for most of the statistical and economic

information produced by the program outside of tourism information. The program has initiated a series of online publications including the e-report series, the online and CD-ROM versions of the State Data Book and the online Quarterly Statistical and Economic Report.

The program continues to seek ways to economize, including careful consideration of research priorities, staff development to permit all research needs to be performed in-house, and elimination of numerous subscriptions and publications.

Revenue Collection

The mission of TAX is to administer the tax laws of the State in a consistent, uniform, and fair manner. To this end, the Taxation program is dedicated to promoting and achieving a high level of voluntary compliance (i.e., where taxpayers voluntarily pay the proper taxes on a timely basis) by educating taxpayers of their tax obligations and executing timely, efficient, and effective compliance initiatives to minimize noncompliance and best utilize its limited resources.

The vision is to become more business-friendly and render superior customer service in a professional, timely, and solution-oriented manner. The program is striving to upgrade the skill levels of its employees and provide them with the training, tools, and confidence to enable them to reach their potential, as well as to implement information technology solutions that enhance taxpayer services and program operations.

During this past year, the tax compliance program collected \$263.1 million in delinquent taxes, surpassing its \$165 million goal. Over the last four fiscal years, the program collected a combined \$384.4 million more than the highest ever collected prior to this Administration (\$113 million in FY 02). These collections show that TAX is recovering an increasing amount of non-remitted taxes properly owed to the State. The hopes to be able to increase the number of audit and collections staff to maximize collection of delinquent taxes and encourage voluntary taxpayer compliance with State tax laws.

The program also completed implementation of the Integrated Tax Information Management System Imaging System (IIS) a majoring imaging system for data entry, automated character recognition and automated data retrieval. IIS provides significant benefits including efficient tax return processing, faster image retrieval and reduced storage space.

Debt Service Requirements

The State debt service requirements account for approximately 98% of the Fiscal Management sub-program for the next biennium. The State Constitution requires that interest and principal payments of general obligation bonds shall be the first charge on the general fund of the State. Table IV-1 indicates the magnitude of this obligation. From FY 86 to FY 03, general fund debt service requirements have increased from \$243.64 million to \$429.46 million. Debt service requirements decreased to \$323.80 million in FY 04 due to the result of refunding/restructuring of general obligation bonds issued in 1998. Debt service requirements will again increase to \$547.61 million in FY 07 and will gradually increase to \$628.22 million in FY 11 and then decrease to \$617.79 million in FY 12, and then increase to \$652.43 million in FY 13, or 19.14% over FY 07.

Table IV-1

General Fund Debt Service
(in millions)

<u>Fiscal Year</u>	<u>Outstanding General Obligation Bonds</u>	<u>Debt Service</u>	<u>General Fund Expenditures</u>	<u>Debt Service as % of Total General Fund Expenditures</u>
1986	\$1,734.90	\$243.64	\$1,597.80	15.25%
1987	1,823.62	250.99	1,687.70	14.87%
1988	1,847.94	254.80	1,944.30	13.10%
1989	1,978.01	260.69	2,099.50	12.42%
1990	2,026.09	267.20	2,624.60	10.18%
1991	2,274.85	279.61	2,809.60	9.95%
1992	2,328.55	297.74	2,672.40	11.14%
1993	2,767.69	289.83	2,965.27	9.77%
1994	2,872.49	330.33	3,059.40	10.80%
1995	2,934.96	355.14	3,169.10	11.21%
1996	2,851.17	419.97	3,123.70	13.44%
1997	3,102.29	421.10	3,128.70	13.46%
1998	3,387.99	387.73	3,173.64	12.22%
1999	3,189.30	377.67	3,243.94	11.64%
2000	3,299.86	370.97	3,130.30	11.85%
2001	3,244.86	386.66	3,264.27	11.85%
2002	3,584.90	399.43	3,651.12	10.94%
2003	3,648.37	429.46	3,803.11	11.29%
2004	3,966.37	323.80	3,881.50	8.34%
2005	4,267.31	348.28	4,184.60	8.32%
2006	4,330.67	498.66	4,679.10	10.66%
2007 (Est.)	4,370.55	547.61	5,454.40	10.04%
2008 (Est.)	4,596.72	576.85	5,481.20	10.52%
2009 (Est.)	4,808.15	609.85	5,484.90	11.12%
2010 (Est.)	4,999.32	606.19	5,493.20	11.04%
2011 (Est.)	5,169.87	628.22	5,566.50	11.29%
2012 (Est.)	5,135.94	617.79	5,608.60	11.02%
2013 (Est.)	5,067.52	652.43	5,686.40	11.47%

By FY 13, debt service is projected to account for approximately 11.72% of the State's total general fund expenditures. The general obligation bond debt service projections are based on \$350 million in FY 07, \$550 million in FY 08, \$550 million in FY 09, \$525 million per year in FY 10 through FY 11 and \$300 million per year in FY 12 through FY 13. Interest rates on the proposed general obligation bonds are estimated at 5.70% for FY 07 and 6.00% for FY 08 to FY 13.

The State Constitution establishes limits on State borrowing. Under Article VII, Section 13, the State may issue general obligation bonds provided that such bonds at the time of issuance would not cause the total amount of principal and interest in any fiscal year to exceed 18-1/2% of the average

defined general revenues for the immediate preceding three fiscal years.

In addition, in every general law authorizing the issuance of general obligation bonds, the Legislature must include a declaration of findings that the principal and interest estimated for those bonds, and all other bonds that have been authorized, whether issued or un-issued, would not cause the debt limit to be exceeded at the time of issuance.

Risk Management and Insurance Administration

The State's property insurance premium has had significant increases in the last two years (46% for FY 06 and 62% for FY 07) resulting in the request for supplemental appropriation of an additional \$1.3 million of general funds and an increase in the revolving fund spending ceiling of \$1.5 million in FY 07. Additionally, various special and trust funded departments/agencies were assessed an additional \$278,400. The increase in the property insurance premium results from several factors: insured losses sustained from Hurricanes Katrina and Rita; the State's recent history of five major school fires; the October 30, 2004 flood at the University of Hawaii at Manoa; and the October 15, 2006 earthquake. The biennium budget for FY 08 and FY 09 includes an increase of \$607,125 in general funds and an increase in the revolving fund spending ceiling of \$3 million to cover the increase. It is anticipated that the trend of an increase in premium and/or a reduction of coverage will continue for the next several years and a Governor's Message to increase the revolving fund spending ceiling may be required.

Construction and Office Leasing Programs

On July 1, 2005, in accordance with Act 51, SLH 2004, Public Works - Planning, Design, and Construction program transferred projects, funding, Oahu-based positions and responsibilities for schools-related repairs and maintenance and construction to the DOE. However, Public Works-funded program staff in DAGS neighbor island district offices continue to provide construction management services to the DOE for repairs and maintenance of public schools, new construction, and renovations, in addition to working on Public Works program projects.

For the last two fiscal years, bids received averaged 5% and 4% higher, respectively, than pre-bid construction estimates, indicating a change in the construction and economic climates since September 11, 2001.

The Public Works program also provides public works structural damage assessment for damage caused by natural disasters such as the 40 days of rain that began in March 2006 and caused floods, landslides, and damage to roads, streams, bridges, and

other structures throughout the State, as well as assessments in the aftermath of a major earthquake that occurred on October 15, 2006. Work was coordinated with State Civil Defense (State Department of Defense) and the Federal Emergency Management Agency. Earthquake assessments and repairs statewide are expected to continue as needs are identified.

The Public Works program and the Central Service Division's Building Repairs and Alterations Program staffs provided planning, design and construction services for emergency shelters and transitional housing solutions to address the issue of homelessness. The program will continue to coordinate with other agencies in this effort, as required.

The Honolulu office market is posting very healthy results, with vacancy rates on Oahu at the 1991 levels (under 8%), and falling. The robust growth in the office sector of the commercial market was supported by the large growth in professional and business service jobs, as well as information technology positions. Another contributing factor is Hawaii's unemployment rate, which is around 2.4% and almost half of the national unemployment rate.

With Oahu's vacancy rate falling for the past three years from approximately 14% in mid-2003 to just under 8% at mid-2006, tenants have less negotiating power to secure landlord concessions like free rent and tenant improvement allowances. With less supply of office space, especially for blocks of space over 10,000 square feet, higher tenant improvement costs, escalating rents (which are fueled by increasing costs for electricity, real property taxes and property insurance), and no significant increases in office inventory, landlords are clearly in the drivers seat.

On the outer islands, gross rental rates for office space near main business districts continue to match or exceed the Honolulu Central Business District's lease rental rates. Besides the positive economic conditions experienced by the outer islands, other contributing factors include the higher cost of electricity, and the lack of office inventory.

While Hawaii's healthy economy is good for landlords and their real estate brokers in the commercial office market, at the same time, these conditions make it challenging for tenants like the State, to be on the other side of the fence trying to keep costs down.

The Office Leasing program continues to negotiate the best lease rental rates, despite the current market conditions favoring landlords. It responds to the office leasing needs of State agencies as efficiently as possible, with emphasis on

placing new programs in lease space in order to expedite their servicing of the public, and meeting the needs of federal mandates, legislative requirements, disaster preparedness, etc.

State Procurement

Significant conditions, trends and issues affecting other areas of State government are impacting the procurement environment. Rapid advances in technology are offering a myriad of opportunities for advancements in productivity. The Internet, electronic business, and paperless offices are only a few of the areas to be further researched for procurement applications. The competition for resources will continue to intensify. Higher taxpayer expectations for efficient, effective and trustworthy government operations are anticipated. SPO personnel will be challenged to do more with less, to exercise more creativity and flexibility, and to deliver faster quality services to their customers.

Legal Services

Over the years, marked increases in the responsibilities and services of the Legal Services program have occurred. Increases have come primarily in the areas of tort litigation, employment law, and family law. In addition, regular workload demands in the areas of education, human services, and health persist. In the past, class action lawsuits, federal court monitoring, and consent decrees, many of which will continue into the foreseeable future, have impacted these areas and required an additional focus of legal services resources. Other areas that demand Legal Services program attention include antitrust actions on behalf of the State and collections and recoveries on behalf of clients.

As the chief law enforcement agency of the State, AG is the only agency to have statewide jurisdiction to prosecute criminal violations. Therefore, the Legal Services program continues to take an active role in the criminal arena. Besides ongoing prosecutions of welfare fraud, illegal tobacco products, white-collar financial and Internet crimes, recent efforts include the prosecution of environmental crimes and drug nuisance abatement, including the closing of drug houses. Also, the department has established a Cold Case Unit, the only enforcement entity in the state dedicated to investigate and prosecute unsolved murders.

EUTF

Act 245, SLH 2005, authorized public unions to establish on a pilot basis, voluntary employees benefit associations trusts (VEBA) to provide bargaining unit employees and eligible retirees with health benefits. Effective March 1, 2006, the

Hawaii State Teacher's Association VEBA was implemented and approximately 13,000 active employee beneficiaries transferred to the VEBA health benefit plans and approximately 1,000 retiree beneficiaries will transfer effective January 1, 2007. The EUTF through a Memorandum of Understanding provides assistance to the employer in verifying contributions to the VEBA.

The Government Accounting Standards Board ("GASB") has issued Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, and 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB No. 43 must be implemented by EUTF for fiscal year ending June 30, 2007 and GASB No. 45 must be implemented by the employers for fiscal year ending June 30, 2008. The new GASB requirements will increase staff workload. Further, decisions on pre-funding of employer contributions will need to be addressed.

Effective July 1, 2007, the EUTF will be offering new types of benefit plans and more options for its employee-beneficiaries. While the employee-beneficiaries will benefit from these new health plan choices and options, the changes may pose operational challenges for the program and will require the EUTF to increase current outreach and educational efforts to its employee-beneficiaries.

ERS

Pension accumulation requirements (all means of financing) to fund the ERS total \$348.1 million in FY 08 and \$354.7 million in FY 09, an increase of \$1.6 million for FY 09, over FY 07 levels. The ERS has a large unfunded pension liability due to the past diversion of ERS excess earnings which were used to pay for other State and county government programs. The diversion prevented ERS from establishing a reserve for the years of poor investment earnings. Act 181, SLH 2004, changed the methodology used to compute employer contributions for State and county government employees' retirement benefits. Employer contributions are currently based on a statutorily set percentage of members' compensation (starting from FY 06). Employers will contribute 15.75% of compensation for police officers, corrections officers, and firefighters and 13.75% of compensation for other employees. While adoption of the new long-term financing funding methodology was implemented to strengthen the ERS and bring down the liability, the unfunded liability increased to \$5.1 billion on June 30, 2006 from \$4.1 billion in 2005 primarily because of the increasing life expectancies of ERS retirees and collective bargaining increases that exceeded the 4% salary increase assumption.

The federal Pension Protection Act of 2006 contained the required authorization to provide the new State Hybrid

Retirement Plan members with additional payment options for service credits on a tax-deferred basis. The ERS tax attorneys are reviewing the Pension Protection Act and a recent IRS notice to determine methods members can use to pay for the conversion.

ERS has continued to make progress in the implementation of its new pension management information system (PMIS) which will administer the three ERS retirement plans. The new PMIS includes an integrated database, workflow, and a documents imaging system that will enable the program to improve both the operational efficiency and reliability of services provided to its members. ERS also continues to face the challenges of increasing workloads due to an aging State workforce and changes in the statutes affecting the pension plans.

Public Land Management

Limitations on the amount of Conservation District Lands may increase pressure to develop these lands at higher rates and densities. In addition, more sensitive areas may be sought for development as less sensitive areas become utilized for various purposes. This will increase demands on the OCCL staff. Legal challenges may increase (e.g., more contested case hearings) as property values increase resulting in conflicts between owners wishing to use land and conservation groups wanting to protect land. Violations increase in severity and frequency as suitable land becomes increasingly limited. Serious challenges will arise for structures, communities, and facilities located in coastal areas due to sea level rise and storms. This will increase demands for shoreline armoring and new scientific data to understand these trends. These problems already overburden OCCL staff, and will only increase in the future.

Workforce Attraction, Selection, Classification & Effectiveness

Current sustained low unemployment rates have resulted in a very tight labor market. Workforce analysis shows that about 25% of the executive branch workforce will be eligible for retirement by the end of FY 10. With the potential exodus of experienced and skilled employees when they retire, the State will be faced with increasing recruitment challenges as the skills gap widens between job requirements and the actual pools of qualified and available persons.

The State must develop new strategies and innovative ways to enable programs to compete for the limited labor pool. Failure to compete will limit programs in increasing services to the public. The new employees hired today will become the senior workers, supervisors, managers and administrators of

tomorrow, so the State must put itself in a position to hire quality employees.

Funds for an internet-based recruitment and examination system and a temporary personnel management specialist position are being requested to maximize online recruitment and to develop new ways of classifying positions that will improve the recruitment and retention of qualified individuals.

V. SELECTED PROBLEMS FOR POSSIBLE STUDY

In Section IV, background information was presented on problems and issues in the Government-Wide program area. The study of these problems and issues should lead to alternative courses of action that could significantly increase the effectiveness of the program.